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Tax Modernization Commission Extends the Debate

While the Governor's proposal to eliminate Nebraska's income tax is off the table this session, the debate on income taxes is just beginning. Today, the Legislature will begin a full debate on LB613, introduced by Columbus Sen. Paul Schumacher, to create the Tax Modernization Commission, "to modernize and align Nebraska's tax law with a twenty-first century economy."[\[1\]](#) The members of the proposed commission would include the Speaker of the Legislature and the chairpersons of the Revenue, Appropriations, Education, Planning, and Health and Human Service Committees, the Tax Commissioner, Legislative Fiscal Analyst, Property Tax Administrator, and two academic experts employed by Nebraska universities.[\[2\]](#) The commission would be the first major examination of Nebraska tax policy since 1988, when a study was conducted by researchers from Syracuse University.[\[3\]](#) In the quarter century since that study was published much has changed.

LB613 outlines six basic elements necessary for successful tax modernization.[\[4\]](#) Please see the below elements for modernization, and the rationale that these benchmarks could be reached by ending the income tax:

- 1. Fairness: Every individual and business would be able to keep what they earn and spend, invest, or save their money as they see fit. Critics often cite that shifting taxation from income to broadening the sales tax is unfair to the poor. More research indeed needs to be done on the positive effects of the elimination of the income tax on lower income families, but it worthy to note that the two states with the lowest poverty rates, Wyoming and New Hampshire have no income taxes.[\[5\]](#)
- 2. Competiveness: States with no individual income tax have a distinct advantage over those that do. From 2001-2010, the average gross state product of states with no income taxes-Texas, Alaska, Florida, New Hampshire, Tennessee, Nevada, Washington, South Dakota, and Wyoming-was 58.54 percent, 25.6 percent higher than the national average and 39.2 percent higher than the nine states with the highest income taxes-California, New York, Ohio, Maine, Maryland, Vermont, New Jersey, Oregon, and Hawaii. Similarly, the population of no income tax states grew by an average of 13.7 percent, 58.2 percent higher than the U.S. average and 148.6 percent higher than high income tax states.
- 3. Simplicity and compliance: The income tax is the most complex tax paid by a majority of Nebraska citizens. The best way to simplify the tax and increase compliance would be to eliminate it entirely or switch to a single, low, flat rate

with a few deductions on major items, such as mortgages or charitable deductions.

- 4. Stability: Even tax revenues have gone up in no income tax states by 81.53 percent, 81.7 percent faster than the high income states and clearly outpacing the U.S. average of 51.04 percent. This shows that even without an income tax, the long-run adequacy and stability of the tax system should not be a concern.^[6]
- 5. Adequacy: On an individual level, from 1971-2010 the personal income in no income tax states grew 55 percent faster than in states with high income taxes.^[7]
- 6. Complementary tax systems: All the various tax systems at the local and state level should supplement, rather than conflict with each other. The sources of each tax, along with their roles, should be clearly defined.

These benefits are not restricted to only the individual income tax, the corporate income tax also possesses numerous advantages for competitiveness and population growth while still providing adequacy and stability with higher tax receipts growth than the national or high tax states average. The seven states with the lowest corporate income tax-four of which also have no individual income tax-saw their gross state product, employment, population, and tax revenue exceed that of the eight highest corporate income tax states by 23.8 percent, 523.3 percent, 79.6 percent, and 19.8 percent, respectively.^[8]

There is no doubt that the entirety of Nebraska's tax system should be analyzed to find what will best serve Nebraska's economic future, including sales tax and its exemptions, property taxes, the inheritance tax, occupation taxes, tax incentives, and how government programs are funded. If the goals are competitiveness, fairness, stability, adequacy, simplicity and compliance, then eliminating the personal and corporate income tax would accomplish these goals and set Nebraska up for success in the future. The overwhelming trend among states has been to cut taxes to stimulate growth, with nine states-including Kansas and Missouri-proposing major income tax cuts or outright abolition in the past two years.^[9] If the Tax Commission wants Nebraska to be modern and compete, eliminating the income tax should be the first item for review.

^[1] Nebraska Legislature, "Legislative Bill 613," January 23, 2013. Accessed February 25, 2013, <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Intro/LB613.pdf>.

^[2] Ibid.

^[3] George Kilpatrick and Bill Lock, "LR 37 (Burling, Et. Al.) Review the Report and Recommendations of the Tax Policy Reform Commission," Nebraska Revenue Committee, October 21, 2008. Accessed February 25, 2013, <http://nrc1.nrc.state.ne.us/epubs/L3770/B037-2008.pdf>.

^[4] Nebraska Legislature, "Legislative Bill 613," January 23, 2013. Accessed February 25, 2013, <http://nebraskalegislature.gov/FloorDocs/Current/PDF/Intro/LB613.pdf>. The

bill also notes that the commission will not be limited to only these elements, but that these are the basic points to be considered.

[5] U.S. Census Bureau, "Table 709: Individuals and Families below the Poverty Level." 2012. Accessed March 14, 2013.

<http://www.census.gov/compendia/statab/2012/tables/12s0709.pdf>

[6] Arthur B. Laffer, Stephen Moore, Jonathan Williams, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*. American Legislative Exchange Council, 2012, pg. 23-24. Accessed March 2, 2013,

http://www.alec.org/docs/RSPS_5th_Edition.pdf.

[7] *Ibid.*, pg. 25.

[8] *Ibid.*, pg. 28.

[9] Henry J. Cordes, "Texas sets bar high for states axing income taxes," *Omaha World Herald*, February 24, 2013. Accessed March 2, 2013,

<http://www.omaha.com/article/20130224/NEWS/702249923>.

